LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

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News Highlights

NATIONAL

OECD raises India's FY25 GDP growth projection by 40 basis points to 6.6%

The Organisation for Economic Co-operation and Development (OECD) on Thursday raised its growth forecast for India by 40 basis points to 6.6 per cent for 2024-25, holding that buoyant public investment and improved business confidence are expected to propel India's gross domestic product (GDP) growth.

"Domestic demand will be driven by gross capital formation, particularly in the public sector, with private consumption growth remaining sluggish. Exports will continue to grow, especially of services such as information technology and consulting, where India will continue to increase its global market share, supported by foreign investment," the inter-governmental group of 38 high-income economies said in its latest Economic Outlook.

Meanwhile, the agency also noted that private consumption has been less vigorous, confirming the preliminary findings from the latest household consumption expenditure survey.

"Some high-frequency indicators, including on e-way bills, toll collections, and new vehicle and scooter sales are suggesting increasing activity. Other indicators, such as digital payment transactions and cement output, remain relatively flat," the outlook observed.

OECD said that more needed to be done to address indebtedness by increasing revenues, improving spending efficiency, and stronger fiscal rules. The outlook also mentions that fiscal consolidation is appropriate in the current context, given the high level of public debt, which holds back private investment.

"Fiscal consolidation, while necessary, will weigh on public investment, and be offset only partially by stronger private investment as business confidence improves. Household consumption (in particular, consumers' discretionary demand) is not expected to accelerate, amid disappointing job creation, lukewarm rural performance, and still tight financial conditions," the outlook noted.

On the global front, GDP growth is projected to be 3.1 per cent in 2024, unchanged from 2023, before edging up to 3.2 per cent in 2025, helped by stronger real income growth and lower policy interest rates.

The developments continue to diverge across countries, with softer outcomes in Europe and most low-income countries, offset by strong growth in the US and many large emerging-market economies.

The report said a normal monsoon season and no other supply shocks that may de-anchor inflation expectations may lead to first cut of the policy rate by the Reserve Bank of India in late 2024, with cumulative cuts of up to 125 basis points implemented before March 2026.

Highlighting downside risks for the growth prospects for India, the outlook notes new supply chain disruptions generated by geopolitical turmoil, food inflation stickiness due to extreme weather episodes, and negative spillovers from fluctuations in global financial markets present downside risks.

However, on the upside, growth may be faster than projected if ongoing disinflation strengthens consumers' purchasing power, lifting household consumption, business investment and job creation, it adds.

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Premium apparel gets back in vogue in Q4

Premium fashion and lifestyle products are beginning to show an uptick again after months of reeling under a slowdown. March quarter (Q4FY24) results of companies such as Shoppers Stop, Vedant Fashions and Reliance Retail have pointed to a revival in demand, even as the value retail segment, led by companies such as Trent's Zudio, continue to outperform the sector.

In Q4, Trent reported a 51% year-on-year growth in revenue, led by Zudio, whose store count is the highest within the company at 545. Trent added 86 Zudio stores in Q4 versus 12 Westside stores during the period. Westside's total store count at the end of the March quarter is 232, less than half of Zudio's network, indicating the retailer is keen on keeping a firm eye on value retail.

While Trent's strategy stands apart from the rest, players such as Shoppers Stop, Reliance Retail nd Vedant Fashions are turning their attention back to premium wear. Vedant Fashions, which is the maker of the Manyavar brand of men's ethnic wear, while reporting mid-single-digit revenue growth (6.30%) and mid-single-digit profit growth (6.33%) in Q4, pointed to an uptick in sentiment in premium wear. Analysts at brokerage Motilal Oswal expect a full recovery for Vedant Fashions by the second half of

FY25. Aditya Birla Fashion and Retail and Arvind Fashions are yet to report their Q4 numbers.

Shoppers Stop, on the other hand, reported a 62.5% year-on-year rise in consolidated net profit and a 13.2% rise in revenue in Q4, helped by demand in its beauty segment as well as premium and luxury products.

The sales boost in premium wear resulted in the average transaction value (ATV) at Shoppers Stop growing by 8% in the March quarter, Kavindra Mishra, MD & CEO, said. This is higher than the 6% ATV seen in the December quarter, which included the festive period. The average selling price also increased from 5% to 7% in the March quarter, Mishra said, pointing to a customer shift towards premium preferences.

In its post-Q4-results earnings call last month, Reliance Retail's CFO Dinesh Taluja, said customer focus towards premiumisation was growing. “Premium brands and premium products are doing better than their peers on the value side. For instance, we had a 20% growth during the year in our partner brands business within premium. Sales uptick has been strong during the (March) quarter within premium,” he said.

Analysts say that a combination of factors, including pent-up demand, weddings and other occasions, are pushing consumers to shop for better clothes, make-up and grooming products.

“With rising affluence, consumers are paying greater attention to how they look. Retailers therefore are bringing their focus back on premiumisation, which had shifted to the value retail segment over the last few quarters,” G Chokkalingam, founder and MD of Mumbai-based Equinomics Research, said.

Mishra, Taluja as well as Vedant Fashions had indicated during their recent results that they were eyeing more premium tie-ups, launches and store experiences to improve sales of their premium products as consumers were beginning to open their purse strings to buy pricier products after months of holding back.

Trent's chairman Noel Tata, however, said the firm would continue to expand and deepen its store presence, mostly in value retail, as the segment promised robust growth.

Cotton Gains As Demand For India Cotton Continues To Be Strong From Buyers

Cotton candy prices experienced a decline of -0.76%, settling at 57120, influenced by a mix of factors including strong demand from key buyers like Bangladesh and Vietnam, as highlighted by the USDA's weekly export sales report. Net sales for the 2023/2024 period surged by 79% compared to the previous week, indicating robust international demand. However, the upside potential was capped by prospects of improved crops in countries such as Australia, putting pressure on prices. The International Cotton Advisory Committee (ICAC) projected an increase in cotton-producing areas, production, consumption, and trade for the next season, 2024-25. Meanwhile, in India, cotton stocks are expected to decline by nearly 31% in 2023/24, reaching their lowest levels in over three decades due to lower production and rising consumption.

Looking ahead, the Cotton Association of India (CAI) forecasts a reduction in India's cotton production for the current season, alongside an increase in consumption and exports. However, for MY 2024/25, India's cotton production is estimated to decrease by two per cent due to farmers shifting acreage to higher-return crops. Despite this, mill consumption is expected to rise as demand for yarn and textiles improves in major international markets. In China, cotton imports for MY 2024/25 are forecasted to increase on the back of higher domestic and international demand for textile and apparel products.

From a technical standpoint, the Cottoncandy market witnessed fresh selling pressure, with open interest gaining by 1.83% to settle at 390 contracts. Despite the decline in prices by -440 rupees, support is identified at 57000, with potential downside testing at 56880, while resistance is expected at 57320, with a potential breakthrough leading to a test of 57520.

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Nigeria, India To Conclude Early Local Currency Settlement System Pact

At the second session of India-Nigeria Joint Trade Committee held in Abuja late last month, India and Nigeria agreed to an early conclusion of a local currency settlement system agreement to further strengthen economic ties, the Indian department of commerce said recently on social media platform X (formerly Twitter).
Such a system would help in promoting the use of Indian rupee and Nigerian naira for cross-border transactions.

The session was held after a five-year gap.

Both sides also identified several focus areas to enhance bilateral trade and investment. These include crude oil, natural gas, unified payments interface, power and renewable energy, agriculture, transport, railway, aviation and development of micro, small and medium enterprises, a news agency reported.

The Indian delegation was led by additional secretary in the commerce ministry Amardeep Singh Bhatia.

Bilateral trade between the two nations stood at $11.85 billion (exports $5.2 billion and imports $6.7 billion) in fiscal 2022-23 and about $15 billion in fiscal 2021-22.

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Rupee falls 3 paise to settle at 83.46 against US dollar

The rupee stayed range-bound and closed 3 paise lower at 83.46 (provisional) against the US dollar on Thursday amid a strong American currency and rising crude oil prices in global markets.

Forex traders said positive sentiment in the domestic equity markets and the inflow of foreign capital capped a sharp fall in the domestic currency.

At the interbank foreign exchange, the domestic unit opened strong at 83.41 and touched the intra-day low of 83.49 against the greenback.

The local unit finally settled at 83.46 (provisional) against the dollar, down 3 paise from its previous close.

The rupee had settled 2 paise higher at 83.43 against the dollar on Tuesday, a day after losing 7 paise on Monday.

The foreign exchange market was closed on Wednesday on account of Maharashtra Day.

On Wednesday, the US Federal Reserve decided to maintain the status quo on the benchmark interest rates, in line with the market expectations.
Anuj Choudhary, Research Analyst, Sharekhan by BNP Paribas, said the rupee fell on disappointing PMI data from India.

"However, positive domestic markets…cushioned the downside." Meanwhile, India's manufacturing PMI fell to 58.8 in April 2024 from 59.1 in the previous month.

The seasonally adjusted HSBC India Manufacturing Purchasing Managers' Index (PMI), however, recorded the second fastest improvement in operating conditions in three-and-a-half years supported by buoyant demand, a monthly survey said on Thursday.

"We expect the rupee to trade with a slight negative bias on dismal PMI data and expectations of a recovery in the US dollar amid further delay in rate cut by Fed. However, weak crude oil prices and positive domestic markets may support the rupee at lower levels," Choudhary said, adding, "USD-INR spot price is expected to trade in a range of Rs 83.25 to Rs 83.70".

Analysts also said market participants are expected to keep a close watch on the US non-farm payroll data to be released on Friday. Besides, weekly unemployment claims, trade balance and factory order data from the US may provide further cues.

Meanwhile, the dollar index, which gauges the greenback's strength against a basket of six currencies, rose 0.04 per cent to 105.67.

Brent crude futures, the global oil benchmark, climbed 0.91 per cent to USD 84.20 per barrel.

On the domestic equity market front, Sensex climbed 128.33 points, or 0.17 per cent, to settle at 74,611.11, and Nifty rose 43.35 points, or 0.19 per cent, to close at 22,648.20.

Foreign institutional investors (FIIs) were net buyers in the capital markets on Tuesday, as they purchased shares worth Rs 1,071.93 crore on a net basis, according to exchange data.

India's Goods and Services Tax (GST) collections grew 12.4 per cent to a record high of Rs 2.10 lakh crore in April, aided by strong economic momentum and increased domestic transactions and imports, the finance ministry said on Wednesday. PTI HVA BAL BAL

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India's government bond outflows in April an aberration, say analysts

The recent sharp foreign investor selling in Indian government bonds in April, marking the highest monthly sales since the Covid-19 pandemic, is only an aberration, with inflows likely to continue in the coming months, senior market participants said.

A large part of these outflows have happened on the back of weakness in the local currency and a jump in U.S. yields as investors repriced rate cut expectations, they said.

"We are not expecting large-scale outflows because of rupee weakness or consistent dollar strength; the recent drop in rupee will not lead to a change in our outlook," said Parul Mittal Sinha, India head of financial markets at Standard Chartered Bank.

Foreign investors sold bonds worth 149.5 billion rupees ($1.79 billion) on a net basis in April, the highest in the four years, after net purchases of bonds worth 816 billion rupees between October and March.

April sales include the net sale of 99 billion rupees of bonds under the Fully Accessible Route (FAR) that are due to be included in JPMorgan's index from June, marking the largest ever monthly sale since the category was carved out in 2020.

"There is broad caution in terms of emerging markets, but India is benefiting as it has a lower co-relation and lower beta vis-à-vis U.S. yields," said Mitul Kotecha, head of currency and emerging market macro strategy for Asia at Barclays.

The rupee hit a record low in April, while the 10-year U.S. yield jumped 49 basis points, worrying investors, but the Indian benchmark yield only rose 13 bps as local fundamentals stayed supportive.

Sinha anticipates inflows of $25-$30 billion going ahead as she believes index trackers are yet to bring in their funds.

Barclays' Kotecha eyes $20-$25 billion, with upside risks as an attractive carry, stable currency, and a positive macro backdrop and fiscal picture make Indian bonds attractive.

Rick Cheung, portfolio manager for emerging market debt at BNP Paribas Asset Management continues to remain bullish and expects the benchmark yield to ease below 7% in the near term from 7.17% currently.

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India's services exports dip marginally in March to $30 bn

services exports: India's services exports dip marginally in March to $30 bn - The Economic Times

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GST revenue collection hits record high of Rs 2.10 lakh cr in April

GST collection: GST revenue collection hits record high of Rs 2.10 lakh cr in April - The Economic Times (indiatimes.com)

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GLOBAL

Bangladesh's Exports Could Drop 14% Post LDC Transition, ADB Warns

According to the Asian Development Bank (ADB), Bangladesh’s exports might face a decline ranging from 5.5 per cent to 14 per cent post its graduation from a Least Developed Country (LDC) status in 2026.

This projection, especially concerning reduced earnings from the European Union (EU), highlights the potential impact of losing preferential trade benefits.

Currently, over 70 per cent of Bangladesh’s merchandise exports benefit from LDC-specific trade preferences and the impending graduation poses a significant concern for the country’s export sector, particularly the dominant readymade garments (RMG) industry.

After graduation, Bangladesh could lose these preferences, subjecting it to less favourable trade conditions or Most Favoured Nation (MFN) tariff rates, depending on donor countries' trade policies.

The ADB's study on *"Expanding and Diversifying Exports in Bangladesh: Challenges and the Way Forward,"* published in March, highlighted that increased tariffs could lead to a significant decrease in exports.

Moreover, LDC graduation will limit Bangladesh's policy flexibility in supporting the export sector through subsidies. While World Trade Organization members are generally prohibited from providing export subsidies, LDCs enjoy exemptions from this regulation.

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Sri Lanka, Egypt In Talks To Ramp Up Trade

Trade minister Nalin Fernando recently held discussions with Egyptian ambassador Maged Mosleh to explore avenues for strengthening bilateral ties even as the Egyptian envoy on his part highlighted the potential of the Sri Lanka-Egypt Joint Commission on Trade and Economic Cooperation (JCTEC) as a pivotal platform for fostering closer economic relations between the two nations.

This is as per media reports, which added Fernando revealed plans to convene the next JCTEC session in June this year.

Emphasising Africa's burgeoning market potential, Mosleh encouraged Sri Lankan exporters to invest in Egypt, leveraging the relaxed rules of origin under a free trade agreement.

The discussions also centred on enhancing existing trade and economic cooperation through avenues like exhibitions and foreign delegations.

The Ministry of Trade Commerce and Food Security secretary AMPMB Athapaththu and officials from the Department of Commerce were also present during the deliberations, underlining the government's commitment to advancing bilateral relations with Egypt.

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US Fed will keep rates steady amid high inflation: Why this matters for the global economy

The US Federal Reserve on Wednesday (May 1) said it is holding its benchmark rate steady after an uptick in inflation, and that it would continue to watch incoming price data before taking a call on when to cut rates. This could be significant given that at the start of this year, most analysts had predicted a Fed rate cut at its May 1 meeting and a total of three rate cuts in 2024.

The consensus view on Wall Street now is of just a single cut this year, something that could have ramifications for monetary policy decisions by other central banks, including the Reserve Bank of India (RBI).

Inflation **"still too high"**

According to data released by the US Labour Department's Bureau of Labour Statistics on April 10, the consumer price index in the US increased by 0.4 per cent month-on-month and surged 3.5 per cent year-on-year, overshooting Wall Street expectations.

US Fed Chair Jerome Powell said Monday **inflation** was "still too high" and rate cuts would not be on the cards until he had "greater confidence" that price growth was inching down towards its 2 per cent target. "It is likely that gaining such greater confidence will take longer than previously expected," Powell told a press briefing after the conclusion of the two-day policy meeting.

"We are prepared to maintain the current target federal funds rate for as long as appropriate… Inflation is still too high, further progress in bringing it down is not assured, and the path forward is uncertain," he said. Powell added the rate cuts going forward would "depend on the data".

"If we did have a path where inflation proves more persistent than expected, and where the labour market remains strong but inflation is moving sideways and we're not gaining greater confidence, well, that would be a case in which it could be appropriate to hold off on rate cuts," he said.

In response to a query on future rate action, Powell even went on to say this: "I think it's unlikely that the next policy rate move will be a hike". The delayed guidance on future rate cuts, alongside the mention of the word hike, seems to have curbed market enthusiasm further, which had rallied in the run up to the closely-watched announcement, before ending mostly down as investors soaked up the fineprint.

The S&P 500 had jumped over 1.1 per cent in afternoon trade May 1, before closing 0.3 per cent, while London's FTSE 100 inched down 0.3 per cent after the Fed presser, according to Reuters data. This is despite the fact that the European Central Bank officials are sticking to a forecast of multiple interest rate cuts this year, the indications of the US Fed going slower with its rate cut plans notwithstanding.

Why are these signals from the US Fed important?

Like other central banks such as the RBI, as the US Fed conducts monetary policy, it influences employment and inflation primarily by using policy tools to control the availability and cost of credit in the economy. The Fed's primary tool of monetary policy is the federal funds rate, changes in which influence other interest rates — which in turn influence borrowing costs for households and businesses, as well as broader financial conditions.

When interest rates go down in an economy, it becomes cheaper to borrow; so households are more inclined to buy more goods and services, and businesses have an incentive to borrow funds to expand operations, buy equipment or to invest in new projects.

Improved demand for goods and services ends up pushing up wages, and helps rekindle the growth cycle. Even though the linkages of monetary policy to inflation and employment are not direct or immediate, monetary policy is a key factor in curbing runaway prices or stoking the growth impetus.

Theoretically, a signal to cut policy rates in the US should be a positive for emerging market economies, especially from a debt market perspective. Emerging economies such as India tend to have higher inflation and, therefore, higher interest rates than in developed countries.

As a result, investors, including Foreign Portfolio Investors, tend to borrow in the US at lower interest rates in dollar terms, and invest that money in the bonds of countries such as India in rupee terms to earn a higher rate of interest.

What will be the impact on other markets, including India?

A cut in rates in the US could have a three-pronged impact. When the Fed cuts its policy rates, the difference between the interest rates of the two countries could widen, thus making countries such as India more attractive for the currency carry trade. The lower the rate in the US, the higher the arbitrage opportunity, till the time that the rate cut cycle starts in other economies as well.

A lower rate signal by the Fed would also mean a higher impetus to growth in the US, which could be yet positive news for global growth, especially when China is reeling under the impact of a real estate crisis and showing signs of slowing down. Lower returns in the US debt markets could also trigger a churn in emerging market equities, improving foreign investor enthusiasm. There is also a potential impact on currency markets, stemming from inflows of funds.

For the RBI, like other central banks, the likelihood of a future rate cut is somewhat predicated on **the US Fed's decision to cut rates.**

On April 5, the six-member Monetary Policy Committee **of the RBI had kept the repo rate – the rate at which India's central bank lends money to banks to meet their short-term funding** needs – unchanged for the seventh consecutive time at 6.5 per cent, while indicating the possibility of retail inflation coming below the crucial level of four per cent in the second quarter (July-September) of FY 2025.

This has raised expectations of a rate cut later this year, but in all probability that could happen only after the US Fed cuts its benchmark rates.

The RBI last cut the repo rate by 40 basis points to 4 per cent in May 2020 when the Covid pandemic raged across the country affecting the entire economy, leading to slowdown in demand, production cuts and job losses. Since then, the RBI has hiked the repo rate by 250 points to 6.5 per cent in order to tackle runaway inflation.

It has projected an inflation of 4.9 per cent in Q1, 3.8 per cent in Q2, 4.6 per cent in Q3 and 4.5 per cent in Q4 of FY’25. The central bank has a mandate to keep inflation at 4 per cent, with a cushion of 2 per cent on either side.

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